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GRAFTON'S LIMITED

Established 1853



ANNUAL REPORT

YEAR ENDED JANUARY 31st, 1966



GRAFTON'S

Board of Directors

GEORGE A. CHATER, *Toronto*

JOHN B. RIDLEY, *Toronto*

G. RICHARD CHATER, *Burlington*

SAM FOSTER ROSS, *Q.C., Dundas*

WILLIAM A. HEASLIP, *Campbellville*

DOUGLAS C. WOOLLEY, *Toronto*

STEWART PHILP, *Dundas*

Officers

STEWART PHILP, *Chairman of the Board*

G. RICHARD CHATER, *President*

WILLIAM A. HEASLIP, *Vice-President*

GEORGE A. REYNOLDS, *C.A., Secretary-Treasurer*

Transfer Agents and Registrar

Canada Permanent Trust Company, *Toronto*

Auditors

Thorne, Mulholland, Howson & McPherson

Bankers

The Bank of Nova Scotia

DIRECTORS' REPORT

To the Shareholders of Grafton's Limited:

During the year the Grafton stores enjoyed an increase in sales and operating results in keeping with the buoyant economy and higher level of consumer spending. Operating profit before depreciation and income taxes increased 15%, while net earnings per common share increased 13% — from 95¢ to \$1.09. Since our planned expansion for next year can be easily financed from internal sources, your Directors raised the dividend rate per common share for the year from 50¢ to 75¢. Two leased departments were closed at a greater terminal loss than anticipated, while the remaining leased department continues to show a modest profit. Due to unforeseen development problems, a previously announced new store was not opened.

Credit sales increased during the year, but we were able to decrease the accounts receivable through improved billing and collection procedures.

For the last four years there has been a continuous but general upgrading in the quality, price lines, and merchandise assortment carried in our stores, with substantial steps being taken in this direction during the year. The broad middle income group to whom we are endeavouring to appeal now includes the majority of the population, and the upward mobility in their tastes will continue. Therefore we believe that the higher investment in inventory levels is warranted. A quality four colour Christmas Gift Book was distributed throughout our trading areas to further convey the upgrading programme that has been undertaken.

It was decided to change Company reporting policy by transferring the security holdings from current assets to investments. This change has resulted in the apparent reduction in working capital, whereas there would have been an increase if operating data alone was considered.

The Woodstock store was completely remodelled prior to Easter 1965 and our highly successful Ladies' Junior Sportswear department was added to this store. Six of the stores are now programmed in this manner. Renovations were undertaken in Hamilton to expand the basic main floor Men's Wear department and the Ladies' Sportswear department was moved to an attractive new shop on the second floor.

A major store has been leased in a regional shopping centre in St. Catharines which will open prior to Fall 1966 and should add to the generally favourable outlook for next year.

The loyalty of our customers and the co-operation of our suppliers, together with the efforts of our employees, have played a most significant part in our progress to date.

On behalf of the Board,

G. R. CHATER,

President.

March 31, 1966



GRAFTON'S



GRAFTON'S

GRAFTON

Incorporated under

BALANCE SHEET,

(With comparative figures for 1965)

Assets

CURRENT ASSETS:

	<u>1966</u>	<u>1965</u>
Cash	\$ 71,021	\$ 38,081
Marketable securities, at cost (market value \$55,800)		58,506
Accounts receivable, less allowance for doubtful accounts	397,136	421,401
Inventories, at lower of cost and net realizable value less normal profit margin	848,788	726,564
Prepaid expenses	4,629	7,077
	<u>1,321,574</u>	<u>1,251,629</u>

INVESTMENTS IN SHARES, at cost (including listed securities in 1966 at cost of \$21,400 and market of \$20,700)

61,405	14,400
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FIXED ASSETS, AT COST:

Fixtures and equipment	771,203	705,028
Building alterations	433,809	433,809

1,205,012	1,138,837
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LESS Accumulated depreciation

711,436	651,424
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493,576	487,413
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<u>\$ 1,876,555</u>	<u>\$ 1,753,442</u>
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Approved on behalf of the Board:

G. R. Chater, Director

W. A. Heaslip, Director

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laws of Ontario

ANUARY 31, 1966

ures for 1965)

Liabilities

CURRENT LIABILITIES:

	<u>1966</u>	<u>1965</u>
Accounts payable and accrued liabilities	\$ 257,788	\$ 130,654
Dividends payable	9,035	9,035
Income taxes payable	18,158	34,409
	<u>284,981</u>	<u>174,098</u>

SHAREHOLDERS' EQUITY:

Capital stock, authorized and issued:

36,100 Class A shares without par value carrying a fixed preferential cumulative dividend of \$1.00 per share per annum and convertible share for share into common shares	225,625	225,625
36,140 common shares without par value	225,875	225,875

	451,500	451,500
Retained earnings	1,140,074	1,127,844
	<u>1,591,574</u>	<u>1,579,344</u>
	<u>\$ 1,876,555</u>	<u>\$ 1,753,442</u>

NOTE:

LONG-TERM LEASES: Leases on head office and store properties, including renewal options, extend into the year 1987. The minimum annual rental exclusive of taxes, insurance and percentage of sales charges amounts to approximately \$84,000 for 1967.



GRAFTON'S

Statement of Income

YEAR ENDED JANUARY 31, 1966
(With comparative figures for 1965)

	<u>1966</u>	<u>1965</u>
Income from operations before under-noted items	\$ 183,387	\$ 163,351
Depreciation	60,052	52,742
Directors' fees	1,400	700
	<u>61,452</u>	<u>53,442</u>
Income before undernoted taxes	121,935	109,909
Taxes on income	46,500	39,500
NET INCOME FOR YEAR	<u><u>\$ 75,435</u></u>	<u><u>\$ 70,409</u></u>

70% ↑

1.09

.95

Statement of Retained Earnings

YEAR ENDED JANUARY 31, 1966
(With comparative figures for 1965)

	<u>1966</u>	<u>1965</u>
Retained earnings at beginning of year	\$ 1,127,844	\$ 1,111,605
Net income for year	75,435	70,409
	<u>1,203,279</u>	<u>1,182,014</u>
Dividends declared:		
Class A shares	36,100	36,100
Common shares	27,105	18,070
	<u>63,205</u>	<u>54,170</u>
RETAINED EARNINGS AT END OF YEAR	<u><u>\$ 1,140,074</u></u>	<u><u>\$ 1,127,844</u></u>

Statement of Source and Application of Funds

YEAR ENDED JANUARY 31, 1966
(With comparative figures for 1965)

	<u>1966</u>	<u>1965</u>
FUNDS MADE AVAILABLE:		
By operations:		
Net income for year	\$ 75,435	\$ 70,409
ADD: Depreciation, which does not involve an outlay of funds	60,052	52,742
	<hr/> 135,487	<hr/> 123,151
Proceeds from sale of fixed assets ..		1,134
	<hr/> 135,487	<hr/> 124,285
FUNDS APPLIED:		
Additions to fixed assets	66,215	26,848
Investments:		
Purchases during year		14,400
Reclassification of marketable securities as investments	47,005	
Dividends declared:		
Class A shares	36,100	36,100
Common shares	27,105	18,070
	<hr/> 176,425	<hr/> 95,418
INCREASE (DECREASE) IN		
WORKING CAPITAL	(40,938)	28,867
Working capital at beginning of year ..	1,077,531	1,048,664
	<hr/> \$ 1,036,593	<hr/> \$ 1,077,531
WORKING CAPITAL AT END OF YEAR ..	<hr/> <hr/>	<hr/> <hr/>

Auditors' Report

To the Shareholders of Grafton's Limited:

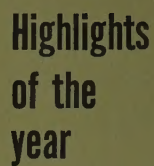
We have examined the balance sheet of Grafton's Limited as at January 31, 1966 and the statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of the company as at January 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned statements, presents fairly the changes in the working capital of the company for the year ended January 31, 1966.

Toronto, Canada
March 11, 1966

THORNE, MULHOLLAND, HOWSON & MCPHERSON
Chartered Accountants



The International Mark of Quality
its introduction
to Canada
Fall '65



Winter — full colour gift book
launched Christmas season.

